Banking

Improving Fundamentals Depite Macro Headwinds

OVERWEIGHT
(Maintained)

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Highlights

- The banking sector's Sep 25 stats remained resilient despite macro headwinds. Loan growth inched upwards to 5.5%, asset quality improved further with GIL at historical lows and liquidity stayed healthy with LDR below 89%.
- We expect sector earnings to grow 3%/5% in 2025/26 respectively. Earnings resilience is underpinned by an around 5% loan growth, stable credit costs, manageable NIM pressure, and potential non-interest income upside.
- **Maintain OVERWEIGHT.** We remain constructive on the sector. Valuations remain appealing, with the sector trading at a mean P/B of 1.10x and offering an attractive dividend yield averaging 6%.

Analysis

- **Loan growth remained stable at 5.5% in Sep 25 (Aug 25: 5.4%).** Business loans accelerated to 5.5% (Aug 25: 5.0%), led by construction (6.9% vs. 6.0%), while household loans eased slightly to 5.5% (Aug 25: 5.7%) on softer auto lending. Overall growth is tracking the mid-range of our 5-6% 2025 forecast.
- We maintain our 2025 loan growth forecast at 5-6% (1.4x loans-to-GDP, within the 1.0-1.7x historical range). For 2026, we project a 5.0-5.5% growth amid banks' margin discipline. Loan approvals and applications rose 4.2% and 13.1% yoy (vs a flattish trend in Aug 25).
- Deposit growth improved to 4.0% yoy in Sep 25 (Aug 25: +3.8%), lifted by stronger CASA growth (+8.1% vs +6.1% in Aug 25). Fixed deposit growth eased to 1.3% from 2.7% in Aug 25. The loan-to-deposit ratio inched downwards to 89.0% (Aug 25: 89.4%). Overall liquidity remains healthy, with banks retaining flexibility to tap the bond market for cheaper funding compared with costly wholesale deposits.
- The GIL ratio eased to 1.41% in Sep 25 (Aug 25: 1.43%), led by improvements in business loans (GIL: 1.94% vs 2.0% peak). With sector loan loss coverage at 90% (vs pre-pandemic 80%) and GIL at historical lows, credit costs are expected to remain stable at around 17bp.

Valuation/Recommendation

- **Maintain OVERWEIGHT.** We remain constructive on the sector, trading at 1.10x P/B with a 6% 2026 yield. Catalysts include stronger capital management and NIM recovery. Its large-cap liquidity positions it to benefit from EM fund inflows amid Fed rate cuts. NIM recovery after the OPR cuts and resilient capital buffers should drive 2026 earnings rebound (5% vs 2025: 3%).
- **Top sector picks. Our BUY list blends high-beta names with attractively valued banks.** Reflecting a stronger risk-on stance, we have included three high-beta picks - CIMB, RHB, and AMMB - while maintaining conviction in Public Bank and Hong Leong Bank, which continue to trade at -1SD below historical mean P/B and offer solid provision buffer.

Sector Catalyst/Risk

- **Catalysts.** Non-interest income tailwinds, potential capital management upside, beneficiary of emerging market fund flow from narrowing Fed fund rate-OPR differential, NIM recovery in 2026.
- **Risks.** Key risks to our sector view include sharper-than-expected spillover effects from US tariff-driven headwinds that could raise provisioning needs, and potential surprise OPR cuts that may deepen NIM compression. However, our base case assumption is for no further OPR cuts in 2025 and 2026.

Segmental Rating

Segment	Rating
Bank	OVERWEIGHT (Maintained)

Source: UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
Public Bank	PBK MK	BUY	4.31	4.90
CIMB Bank	CIMB MK	BUY	7.30	8.25
Hong Leong Bank	HLBK MK	BUY	20.56	23.80
RHB BANK	RHB MK	BUY	6.77	7.55
AMMB	AMM MK	BUY	5.70	6.08

Source: Bloomberg, UOB Kay Hian

Banks' Share Price Performance

Company	Price (RM)	yoy % chg	Ytd % chg
RHB Bank	6.77	5.6	4.5
AMMB	5.70	11.8	4.0
HL Bank	20.56	0.3	0.0
Maybank	9.87	(6.0)	(3.6)
Alliance Bank	4.40	2.6	(6.7)
Public Bank	4.22	(4.5)	(7.5)
HLFG	16.90	(9.4)	(8.6)
Bank Islam	2.20	(18.8)	(10.9)
CIMB Group	7.30	(8.6)	(11.0)
Affin Bank	2.29	(19.7)	(16.9)

Source: Bloomberg, UOB Kay Hian

Summary Of Banking Data

	yoy % chg		
	JuL-25	Aug-25	Sep-25
Loan Outstanding	5.4	5.4	5.5
- Business	4.7	5.0	5.5
- Household	5.8	5.7	5.5
Loan Applied	(0.9)	2.1	13.1
- Business	(2.1)	0.9	6.7
- Household	(0.0)	3.2	19.0
Loan Approved	(4.8)	0.0	4.2
- Business	(7.7)	(2.0)	1.6
- Household	(1.7)	2.3	7.8
Loan Disbursed	(4.7)	(9.2)	(65.6)
- Business	(6.4)	(10.7)	(9.0)
- Household	1.3	(4.4)	(0.4)
Loan Repaid	(7.5)	(8.7)	(7.1)
- Business	(9.8)	(11.2)	(10.2)
- Household	1.6	0.3	4.9
Impaired Loans	(4.0)	(4.3)	(3.7)
- Business	(4.6)	(5.9)	(5.3)
- Household	(3.2)	(2.4)	(1.6)

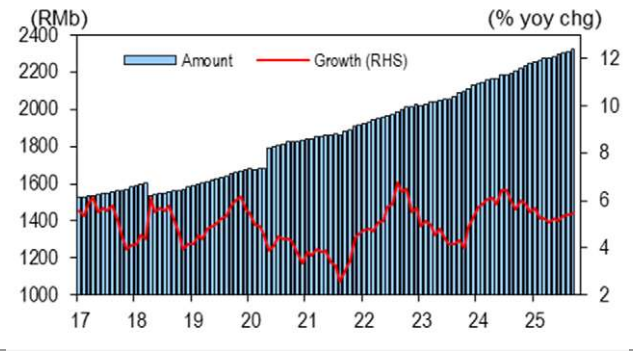
Source: BNM

Peer Comparison

Company	Ticker	Rec	Price 31 Oct 25 (RM)	Target Price (RM)	Upside To TP (%)	Last Year End	PE 2024A (x)	PE 2025E (x)	PE 2026E (x)	Yield 2025E (%)	ROE 2025E (%)	Market Cap. (US$m)	Price/ NAV ps (x)
Public Bank	PBK MK	BUY	4.22	5.24	24.2	Dec-24	11.5	11.1	10.4	5.4	12.5	19,503	1.4
CIMB Group	CIMB MK	BUY	7.30	8.25	13.0	Dec-24	10.2	10.1	9.3	5.4	10.9	18,722	1.1
HL Bank	HLBK MK	BUY	20.56	23.80	15.8	Jun-25	10.0	9.0	8.3	5.5	11.4	10,611	1.0
RHB Bank	RHBBANK MK	BUY	6.77	7.55	11.5	Dec-24	9.5	9.3	8.8	7.0	9.5	7,031	0.9
HLFG	HLFG MK	BUY	16.90	21.56	27.6	Jun-25	6.0	5.9	5.5	4.2	9.5	4,608	0.6
AMMB	AMM MK	BUY	5.70	6.08	6.7	Mar-25	8.6	9.3	8.8	6.5	9.4	4,489	0.9
Maybank	MAY MK	HOLD	9.87	10.52	6.6	Dec-24	11.0	10.8	10.6	6.9	10.6	28,391	1.1
Alliance Bank	ABMB MK	HOLD	4.40	4.84	10.0	Mar-25	9.1	8.6	8.1	5.3	9.8	1,813	0.8
Bank Islam	BIMB MK	HOLD	2.29	2.45	7.0	Dec-24	8.3	8.4	9.2	6.0	7.1	1,382	0.6
Affin Bank	ABANK MK	HOLD	2.20	2.55	15.9	Dec-24	10.5	10.0	8.2	3.0	4.5	1,187	0.5

Source: UOB Kay Hian

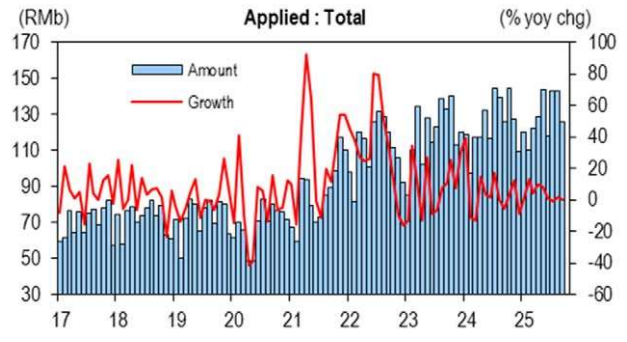
Total Outstanding Loans



- Loan growth remained stable at 5.5% in Sep 25 (Aug 25: 5.4%). Business loans accelerated to 5.5% (Aug 25: 5.0%), led by construction (6.9% vs 6.0%),
- Household loans eased to 5.5% (Aug 25: 5.7%) on softer auto lending. Overall growth is tracking the mid-range of our 5-6% 2025 forecast.

Source: BNM

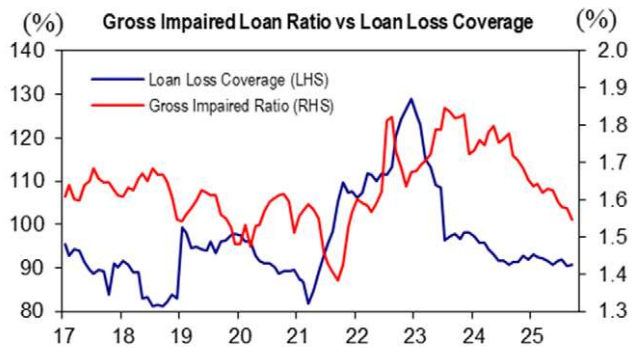
Total Loan Applications



- Loan application growth improved to 13.1% yoy on the back of stronger household and business loans applications.
- Loans approval growth recovered, underpinned by stronger household loans approval.

Source: BNM

Net Impaired Loan Ratio Vs Loan-Loss Coverage



- The GIL ratio eased to 1.41% in Sep 25 (Aug 25: 1.43%), driven by improvements in the business segment which is starting to show signs of recovery after peaking over the past two months.

Source: BNM

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